



BETTY T. YEE
California State Controller

June 30, 2015

Steve Mandoki, City Manager
Lawndale Redevelopment/Successor Agency
14717 Burin Avenue
Lawndale, CA 90260

Dear Mr. Mandoki:

Pursuant to Health and Safety Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Lawndale Redevelopment Agency (RDA) to the City of Lawndale (City) or any other public agency after January 1, 2011. This statutory provision states, "The Legislature hereby finds that a transfer of assets by a redevelopment agency during the period covered in this section is deemed not to be in furtherance of the Community Redevelopment Law and is thereby unauthorized." Therefore, our review included an assessment of whether each asset transfer was allowable and whether the asset should be turned over to the Successor Agency.

Our review applied to all assets including, but not limited to, real and personal property, cash funds, accounts receivable, deeds of trust and mortgages, contract rights, and rights to payment of any kind. We also reviewed and determined whether any unallowable transfers to the City or any other public agency have been reversed.

Our review found that RDA transferred \$22,055,691 in assets after January 1, 2011, including unallowable transfers totaling \$13,690,996, or 62.07% of transferred assets. The unallowable transfers included \$8,647,803 to the City and \$5,043,193 to the Housing Authority.

However, the following corrective actions have been taken:

- On November 27, 2012, the Housing Authority turned over \$3,684,079 in housing cash to the Successor Agency. The cash was subsequently remitted to the County Auditor-Controller.
- On March 21, 2013, the City turned over \$6,000,000 in cash to the Successor Agency. The \$6,000,000 was subsequently remitted to the County Auditor-Controller.
- On June 18, 2014, the Department of Finance approved the Successor Agency's Long-Range Property Management Plan which included unallowable transfers totaling \$2,391,470.
- On August 7, 2014, the Housing Authority turned over \$1,359,114 in housing assets to the Successor Agency.

Therefore, the remaining \$256,333 in unallowable transfers must be turned over to the Successor Agency.

If you have any questions, please contact Elizabeth González, Chief , Local Government Compliance Bureau by telephone at (916) 324-0622 or by email at egonzalez@sco.ca.gov.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/lis

Attachment

cc: Ken Louie, Director of Finance
Lawndale Successor Agency
John Naimo, Auditor-Controller
County of Los Angeles
Barry Waite, Chair of the Oversight Board
City of Lawndale
Richard J. Chivaro, Chief Legal Counsel
State Controller's Office
Elizabeth González, Bureau Chief
Division of Audits, State Controller's Office
Reginald Nidoy, Audit Manager
Division of Audits, State Controller's Office
Venus Sharifi, Auditor-in-Charge
Division of Audits, State Controller's Office

LAWNDALE REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



Betty T. Yee
California State Controller

June 2015

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Review Report

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Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Lawndale Redevelopment Agency (RDA) after January 1, 2011. Our review included, but was not limited to, real and personal property, cash funds, accounts receivable, deeds of trust and mortgages, contract rights, and rights to payments of any kind from any source.

Our review found that RDA transferred \$22,055,691 in assets after January 1, 2011, including unallowable transfers totaling \$13,690,996, or 62.07% of transferred assets. The unallowable transfers included \$8,647,803 to the City of Lawndale (City) and \$5,043,193 to the Housing Authority.

However, the following corrective actions have been taken:

- On November 27, 2012, the Housing Authority turned over \$3,684,079 in housing cash to the Successor Agency. The cash was subsequently remitted to the County Auditor-Controller.
- On March 21, 2013, the City turned over \$6,000,000 in cash to the Successor Agency. The \$6,000,000 was subsequently remitted to the County Auditor-Controller.
- On June 18, 2014, the Department of Finance approved the Successor Agency's Long-Range Property Management Plan which included unallowable transfers totaling \$2,391,470.
- On August 7, 2014, the Housing Authority turned over \$1,359,114 in housing assets to the Successor Agency.

Therefore, the remaining \$256,333 in unallowable transfers must be turned over to the Successor Agency.

Background

In January of 2011, the Governor of the State of California proposed statewide elimination of redevelopment agencies (RDAs) beginning with the fiscal year (FY) 2011-12 State budget. The Governor's proposal was incorporated into Assembly Bill 26 (ABX1 26, Chapter 5, Statutes of 2011, First Extraordinary Session), which was passed by the Legislature, and signed into law by the Governor on June 28, 2011.

ABX1 26 prohibited RDAs from engaging in new business, established mechanisms and timelines for dissolution of the RDAs, and created RDA successor agencies and oversight boards to oversee dissolution of the RDAs and redistribution of RDA assets.

A California Supreme Court decision on December 28, 2011 (*California Redevelopment Association et al. v. Matosantos*), upheld ABX1 26 and the Legislature's constitutional authority to dissolve the RDAs.

ABX1 26 was codified in the Health and Safety (H&S) Code beginning with section 34161.

H&S Code section 34167.5 states in part, “. . . the Controller shall review the activities of redevelopment agencies in the state to determine whether an asset transfer has occurred after January 1, 2011, between the city or county, or city and county that created a redevelopment agency or any other public agency, and the redevelopment agency.”

The SCO identified asset transfers that occurred after January 1, 2011, between the RDA, the City and/or any other public agency. By law, the SCO is required to order that such assets, except those that already had been committed to a third party prior to June 28, 2011, the effective date of ABX1 26, be turned over to the Successor Agency. In addition, the SCO may file a legal action to ensure compliance with this order.

Objective, Scope, and Methodology

Our review objective was to determine whether asset transfers that occurred after January 1, 2011, and the date upon which the RDA ceased to operate, or January 31, 2012, whichever was earlier, between the city or county, or city and county that created an RDA or any other public agency, and the RDA, were appropriate.

We performed the following procedures:

- Interviewed Successor Agency personnel to gain an understanding of the Successor Agency’s operations and procedures.
- Reviewed meeting minutes, resolutions, and ordinances of the City, the RDA, the Successor Agency, and the Oversight Board.
- Reviewed accounting records relating to the recording of assets.
- Verified the accuracy of the Asset Transfer Assessment Form. This form was sent to all former RDAs to provide a list of all assets transferred between January 1, 2011, and January 31, 2012.
- Reviewed applicable financial reports to verify assets (capital, cash, property, etc.).

Conclusion

Our review found that Lawndale Redevelopment Agency transferred \$22,055,691 in assets after January 1, 2011, including unallowable transfers totaling \$13,690,996, or 62.07% of transferred assets. The unallowable transfers included \$8,647,803 to the City of Lawndale (City) and \$5,043,193 to the Housing Authority.

However, the following corrective actions have been taken:

- On November 27, 2012, the Housing Authority turned over \$3,684,079 in housing cash to the Successor Agency. The cash was subsequently remitted to the County Auditor-Controller.

- On March 21, 2013, the City turned over \$6,000,000 in cash to the Successor Agency. The \$6,000,000 was subsequently remitted to the County Auditor-Controller.
- On June 18, 2014, the Department of Finance approved the Successor Agency's Long-Range Property Management Plan which included unallowable transfers totaling \$2,391,470.
- On August 7, 2014, the Housing Authority turned over \$1,359,114 in housing assets to the Successor Agency.

Therefore, the remaining \$256,333 in unallowable transfers must be turned over to the Successor Agency.

Details of our findings are described in the Findings and Orders of the Controller section of this report.

Views of Responsible Officials

We issued a draft review report on December 17, 2014. Wayne Schaller, Accounting Manager, responded by email on January 5, 2015, and stated that the amount of \$256,333 to be turned over to the Successor Agency was transposed in parts of the draft report as \$265,333. However, he was in agreement with the correct amount of \$256,333. The report has been adjusted for the correct amount.

Restricted Use

This report is solely for the information and use of the City of Lawndale, the Successor Agency, the Oversight Board, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record when issued final.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

June 30, 2015

Findings and Orders of the Controller

FINDING 1— Unallowable asset transfers to the City of Lawndale

The Lawndale Redevelopment Agency (RDA) made unallowable asset transfers of \$8,647,803 to the City of Lawndale (City). The transfers occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

Unallowable asset transfers were as follows:

- On February 22, 2011, the RDA transferred Community Center Land, 14700 Bruin Property, to the City. The land was transferred at a value of \$1.
- On March 7, 2011, the RDA transferred \$6,000,000 in cash to the City for the repayment of various loans from the City.
- On March 7, 2011, the RDA transferred a total of \$2,391,469 in land held for resale to the City.
- On July 1, 2011, the RDA transferred \$196,726 in notes receivable due from Anthony's Ready Mix to the City.
- On January 25, 2012, the RDA reimbursed the City \$59,607 in cash for a debt service repayment linked to several public works projects.

Pursuant to Health and Safety (H&S) Code section 34167.5, the RDA may not transfer assets to a city, county, city and county, or any other public agency after January 1, 2011. The assets must be turned over to the Successor Agency for disposition in accordance with H&S Code section 34177 (d) and (e).

Order of the Controller

Pursuant to H&S Code section 34167.5, the City is ordered to reverse the transfers totaling \$8,647,803 and turn over the assets to the Successor Agency. However, the following corrective actions have been taken:

- On March 21, 2013, \$6,000,000 in cash was turned over to the Successor Agency and subsequently remitted to the Los Angeles County Auditor-Controller, for distribution to the taxing entities.
- Land held for resale valued at \$2,391,469 and the capital asset (14700 Bruin Property) valued at \$1 were turned over to the Successor Agency for disposition under the Long-Range Property Management Plan (LRPMP) approved by the Department of Finance on June 18, 2014.

Therefore, the remaining \$256,333 in unallowable transfers must be turned over to the Successor Agency.

**FINDING 2—
Unallowable asset
transfers to the
Lawndale Housing
Authority**

The Lawndale Redevelopment Agency (RDA) made unallowable asset transfers of \$5,043,193 to the Lawndale Housing Authority. The transfers occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

On May 31, 2011, the RDA transferred a total of \$5,043,193 in housing assets to the Housing Authority.

Pursuant to Health and Safety (H&S) Code section 34167.5, the RDA may not transfer assets to a city, county, city and county, or any other public agency after January 1, 2011. The assets must be turned over to the Successor Agency for disposition in accordance with H&S Code Section 34177(d) and (e).

Order of the Controller

Pursuant to H&S Code section 34167.5, the Housing Authority is ordered to reverse the transfers totaling \$5,043,193 and turn over the assets to the Successor Agency. However, on November 27, 2012, the City turned over \$3,684,079 in cash to the Successor Agency, who remitted it to the Los Angeles County Auditor-Controller for distribution to the taxing entities.

Also, on August 7, 2014, the Housing Authority turned over \$1,359,114 in housing assets to the Successor Agency.

Therefore, no further action is necessary.

**Schedule 1—
Unallowable Asset Transfers to
the City of Lawndale
January 1, 2011, through January 31, 2012**

Current assets:

Cash

3/7/2011	Loan repayments:		
	Mobile Home Loan	\$ 1,042,202	
	Community Center Loan	977,542	
	1998 "Loan for Improvement"	131,238	
	Roll Forward Debt	<u>3,849,018</u>	6,000,000

1/25/2012	Reimbursement to City for debt service repayment		59,607
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Notes receivable

7/1/2011	Reassignment of notes receivable due from Anthony's Ready-mix		196,726
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Land held for resale

3/7/2011	15821 Hawthorne Blvd.	160,000	
	15801-15811 Hawthorne Blvd.	1,100,000	
	4416 W. 147 th Street	147,900	
	Manhattan Beach Ave.	<u>983,569</u>	2,391,469

Capital asset

2/2/2011	14700 Bruin Property	1	1
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Total unallowable transfers to the City			<u>8,647,803</u>
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Less:

City turned over cash to the Successor Agency and remitted to the Los Angeles County Auditor-Controller			(6,000,000)
LRPMP approved on June 18, 2014			<u>(2,391,470)</u>

Total transfers subject to H&S Code section 34167.5			<u>\$ 256,333</u>
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**Schedule 2—
Unallowable Asset Transfers to
the Housing Authority
January 1, 2011, through January 31, 2012**

Cash transfer	\$ 3,612,955
Investments	345,223
Land held for resale	492,083
Loans receivable	<u>592,932</u>
Total unallowable transfers to the Housing Authority	<u>5,043,193</u>
Less:	
Housing Authority turned over cash to the Successor Agency on November 27, 2012	(3,684,079)
Housing Authority turned over housing assets to the Successor Agency on August 7, 2014	<u>(1,359,114)</u>
Total transfers subject to H&S Code 34167.5	<u><u>\$ —</u></u>

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